



International Corporate Governance Network 12th Annual Conference

Corporate Governance – Seizing the Initiative



Hot Topic Session: Board Performance: What are the Key Ingredients?

The session looked at what makes a high performing board, what are the best ways to identify and recruit the best independent directors and what should investors be doing to encourage maximum board performance.

- It must be remembered that boards are a collection of individuals. The qualities of the individuals and the way they work together is what makes for a high performing board.
- In order to get good independent directors it is important that the selection process is rigorous. The nomination committee should look at the skill sets currently on the board and identify any gaps which need to be filled. Following references right back through a candidate's career is very helpful in building up a picture of how they are really likely to perform.
- Boards need to ensure that they are concentrating on the critical issues, not micromanaging the company. Are their information flows appropriate? Are they getting too much information? Are they getting too little? Is it timely? Is it objective? Are they focusing on strategy and how management is putting that strategy into action?
- The most important element of a high performing board is a good chairman. A strong chairman prepares for the board meetings carefully, sets the agenda, ensures there is adequate time to cover all the issues and ensures board members are all contributing.
- It is important to develop directors' skills and to encourage them to keep an open mind. It can be difficult to encourage experienced directors to go on training courses but it is important that they do.
- Having an effective board review process is very important – as long as the process is rigorous it doesn't matter whether it is externally facilitated or not but internal peer reviews can be an uncomfortable process and may not really challenge or get to the root of problem issues. Having an external analysis of performance at least every now and then helps objectivity.
- Investors need to question boards about their performance review processes: how did they do the review? Did they use an external facilitator? If not, why not? How rigorous was their internal process? However, it is also important to respect the sanctity of the board. What goes on in a review is very personal and confidential.
- The problem with managing board performance is that there is no science for evaluating the performance of a group of individuals. All the criteria which need to be taken into account are behavioural and 'soft' and thus hard to 'measure'.
- It is therefore vital for investors and companies to communicate with each other. They need to build up trust and confidence and to have a dialogue which is ongoing, not just based around the AGM.

ACTION: The ICGN is ideally placed to encourage this dialogue between investors and companies.

Session Chair: Peggy Foran

Scribe: Lesley Stephenson

